

**BOSTON
MAY 20, 2003**

NEPOOL SUPPLIER SECTOR

INTRODUCTION

- The views expressed are based on meaningful consultation with members of the sector and while they express a broad viewpoint are not necessarily the exact views of each and every member of that sector.

GOVERNANCE

- Decisions affecting market rules must be made after meaningful input from buyers and sellers in the marketplace. Input from participants with practical business experience in the energy marketplace into the formation and development of market rule proposals is valuable and necessary. To date, this process of NEPOOL “peer review” has served ISO-NE well, forcing it to be more thorough in its work and to timely address market design shortcomings.
- Accountability to market participants is fundamental. Without a fiduciary relationship to the participants the ISO loses its mandate and its basis for deference. This is the danger of a self-perpetuating board that appoints its own successors. It is left without trustees, shareholders or a citizenry to hold it accountable by casting their ballots. Independence without accountability and fiduciary responsibility is in our view a recipe for disaster.
- To achieve ISO accountability market participants must play a decisional role in the periodic appointment of directors to the ISO Board. Participants in the PJM RTO are permitted to perform this critical function. A similar role for NEPOOL participants should be an acceptable option for our regional institutions as well. The experience with Participant selection of the PJM, NYISO and NEPOOL Boards demonstrates our success in selecting Boards.
- Any stakeholder voting structure must achieve a fair and effective balance between the fundamental business interests of those who supply energy and those who serve load. Some suppliers concur with the generator view that adopting an advisory-only-governance role is preferable to seeking this difficult balance. Others are of the view that certain matters must be put to a participant vote before being filed with FERC under section 205 of the FPA. All, however, concur in the need for a balanced voting structure.

SEAMS

- New England's ISO structure is very close to having achieved the Commission's requirements for an RTO. The only major shortcoming is the achievement of an effective mechanism to address the seams with neighboring control areas. Eliminating seams should, therefore, be the top priority of regional efforts at this time.
- We agree with ISO-NE that we need tariff reforms to eliminate pancaked rates that inhibit trade across the seams. This can not be accomplished by ISOs acting alone. Leadership from the Commission on transmission policy is needed here.
- Also needed is a coordinated process for participants and ISOs to address the market rule and operational barriers that create seams. What is required here is a forcing mechanism with real deadlines to make meaningful advancement in this area. Again, FERC help may be needed.

MARKET DESIGN

- NEPOOL's present energy market design, implemented in March of this year, is based on the PJM platform and is essentially compliant with all the minimum criteria FERC has set out. Further improvements to the overall market, however, have been put on hold in the process of getting here and must now be undertaken promptly. Many of these much needed improvements involve changes to the capacity market and ancillary services.

TRANSMISSION

- NEPOOL has in place a network access transmission structure at this time. FERC, however, has directed that certain transmission facilities outside the regional OATT which connect to Canada should be included in the Pool Transmission Facilities governed by the Tariff as part of our regional reforms. This needs to be completed expeditiously.

MARKET MONITORING

- An independent market monitor/advisor is essential to the regional market. The independent monitor/advisor is free from institutional biases, conflicts of interest with administrative and operational functions or resource limitations that might inhibit an ISO from reaching the optimal conclusions and recommendations.

- **An independent market monitor/advisor need not also perform the day-to-day function of monitoring and mitigating short-term market power or proscribed behavior. These functions can and should remain with the ISO.**
- **An independent market monitor/advisor should report its findings and recommendations directly to FERC. It should also have a reporting obligation to the ISO Board, similar to the relationship of an auditor to a board audit committee, The independent monitor/advisor should also publish its final reports for Participants and state commissions to read.**